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SUBJECT: LOPEZ OBRADOR'S "ADVISORY COUNCIL"

REF:

SUMMARY

¶1. (SBU) PRD co-founder Porfirio Munoz Ledo leads an "Advisory Council" created to feed economic proposals to the AMLO campaign. The council includes some prominent PRD economists whose views tend toward more government intervention in the economy. The extent of the council's influence on AMLO, however, is not clear. End summary.

AMLO'S "ADVISORY COUNCIL"

¶2. (SBU) On January 24, 2006 a group of politicians and economists led by Porfirio Munoz Ledo, co-founder of Party of the Democratic Revolution (PRD) and former Ambassador of Mexico to the European Union, created an Advisory Council to help PRD presidential candidate Andres Manuel Lopez Obrador (AMLO) evaluate and adopt economic proposals offered by outside groups. On February 28, the council held a forum at which a group of left-leaning economists discussed the role of the State in the economy, markets, investment, employment, infrastructure, regional development, industrial policy, and fiscal issues. Rogelio Ramirez de la O, AMLO's official economic advisor, told us the group is not part of the campaign and speaks on behalf of itself, not AMLO. Ramirez said that of the participants at the February 28 meeting, only Ramirez himself is part of the campaign.

¶3. (SBU) AMLO's Advisory Council includes economists Ifigenia Martinez and Arturo Huerta. Martinez, a former PRD deputy and senator, is a professor at the National Autonomous University of Mexico (UNAM), a PRD founder, and a member of the PRD's governing board. According to her bio, she has a Masters degree from Harvard, but she does not have a doctoral degree. Arturo Huerta is also an economics professor at UNAM, where he received his doctorate in economics. Huerta also has strong PRD ties.

MORE STATE INTERVENTION IN THE ECONOMY

¶4. (SBU) The February 28 forum provided insight into the economic thinking of many the members of this group. Ramirez de la O said Mexico should allow the balanced

participation of private investment in infrastructure and energy, wherever the constitution allows it. The more radical Huerta believes the GOM should boost domestic demand by increasing public expenditures, and that the Bank of Mexico's goal should be modified to include an economic growth target in addition to inflation control. According to Huerta, private banks should increase their lending to the government to make Mexico less dependent on "international financing."

LABOR REFORM

15. (SBU) While advocating labor reform to make the labor market more flexible, the council would like to see workers' benefits protected. However, the advisors agree that union leaders' privileges and power need to be reigned in.

PUBLIC INVESTMENTS

16. (SBU) The council has grand plans for public investments. The advisors advocate increasing infrastructure investments in energy, water, transportation, residential construction, and a vague category best described as rehabilitation of idle manufacturing facilities. Oil sector investments would focus on producing more petroleum-based value-added products. The advisors propose using surplus oil revenues to finance such production facilities. The council believes public investments in infrastructure need not be subject to financial return criteria. The advisors expect investments in construction will boost employment, especially if the

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government relies on domestic inputs. Public funds would not be the sole source for all these infrastructure investments, but details of the mechanisms for private participation are lacking.

REGIONAL DEVELOPMENT

17. (SBU) To promote development in the states and rural areas, the council proposes increasing state and municipal budgets, developing policies for specific sectors, redefining the state-federal fiscal relationship, and granting concessions for the creation of regional development banks. The advisors envision developing "multimodal" communication and transportation infrastructure to connect small- and medium-sized businesses to auto and electronics manufacturing clusters. The economic development, finance, agricultural, and labor secretaries of each state would participate in a newly created Regional Development Council. Arguing that because most of the southern parts of Mexico are still under-developed, the council believes the government should renegotiate certain NAFTA provisions to prevent the opening of trade in corn and beans by 2008. The group wants the agricultural sector protected with guaranteed prices for basic grains. The advisors would also like to shift Mexico's export economy away from reliance on maquilas. They envision greater participation by producers of higher value-added products, and competitive replacement of imports by domestically manufactured goods.

INDUSTRIAL POLICY

18. (SBU) The council seeks more joint efforts between government and the private sector. It wants the government to promote greater integration of small- and medium-sized business into the production chain by facilitating linkages

between them and larger companies. The advisors also seek better better financing conditions and a more competitive foreign exchange rate. According to some of these advisors, tight monetary policy has strengthened the peso and hurt manufacturing. To compete with Asia, they say, Mexico needs to invest more in technology since it will no longer be able to compete on labor costs.

TAXES AND FINANCING

19. (SBU) All the increased spending proposed by the group, up to 8 percent GDP, would require raising both revenues and deficits. Although AMLO has made pronouncements against VAT on food and medicine, some of his economists propose increasing VAT collection by reducing the tax to 12% and restricting the zero tax to a basket of 20 products. Some also favor increasing the income tax. Despite tax increases, some still see the need for fiscal deficits to rise by up to three percent of GDP. One proposal says the government "should take control of the central bank" lower the cost of government debt through lower interest rates. The proposal also seeks to weaken the peso to boost exports and hinder imports.

COMMENT

18. (SBU) Muoz Ledo seems to have summoned some of the most leftist academics from the PRD and the old PRI for his Advisory Council. Some of their proposals are prescriptions for ruin, but we don't expect AMLO to support any of the most radical ideas. The extent to which AMLO will listen to the Advisory Council's proposals is still unclear. AMLO's speeches contain some of the same populist rhetoric contained in some council members' proposals, but the credible Ramirez de la O continues to publicly and privately maintain that AMLO will be a responsible economic steward. AMLO wouldn't be the first presidential candidate to use populist campaign promises to gain office. Indeed, his lead may be due to this strategy. If AMLO intends to be more responsible than he sounds, however, he should be more

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careful with his rhetoric and try to impose some discipline on the rhetoric of his fellow PRD members. As several analysts have pointed out, the markets tend to discipline politicians once they are in office. AMLO should make it easier on himself to accept that discipline. End Comment.
GARZA